



Michael C. Schlachter, CFA
Managing Director

November 29, 2007

Dr. Russell Read
Chief Investment Officer
California Public Employees' Retirement System
400 P Street, Suite 3492
Sacramento, CA 95814

Re: Currency Manager Contract Renewal Recommendation¹

Dear Russell,

You requested Wilshire's opinion with respect to Staff's recommendation pertaining to the annual review and renewal of the contracts of the currency overlay managers. Wilshire concurs with Staff's recommendations, and our comments regarding both managers are below. Staff has the authority to terminate managers who do not perform as expected, and they have used that authority when necessary and appropriate. The renewal of these contracts does not in any way preclude Staff from exercising the authority to terminate any manager who ceases to perform as expected subsequent to contract renewal.

We agree with Staff's contention that this benchmark and the subsequent analysis of performance are asymmetrical, as the managers can only chose to be 100% fully hedged or less than 100% hedged, and have no incentive or mechanism to take a position greater than 100% hedged. As a result, when the dollar falls, any hedge ratio of less than 100% is virtually guaranteed to produce positive returns. Conversely, when the dollar strengthens, the best the managers can do is to fully hedge and generate no excess return. We look forward to working with Staff, and potentially the CFA Institute, over the next year to develop a better benchmark for these managers and to explore how we can better utilize their talents to add value in all market environments.

Pareto Partners

Since inception, Pareto has outperformed both the fully hedged and unhedged benchmarks, indicating that their process has added significant value for CalPERS. Over

¹ Wilshire's Code of Conduct requires us to disclose which of the above firms are clients of Wilshire's Analytics Services Division and as such pay Wilshire a fee for the licensing of analytical software used in investment management. Wilshire's consulting division has no business relationship with them. This disclosure has been delivered under separate cover and is included as an attachment to this agenda item.

the past year, Pareto outperformed the fully hedged benchmark by 0.94%, and since inception, has added a total of 9.80% of excess cumulative return. Not surprisingly, given the sharp decline of the dollar over the past year, the manager underperformed the unhedged benchmark. However, since inception, Pareto has also outperformed this benchmark by 2.33%. Given the manager's long term outperformance versus both benchmarks, as well as the strong performance over the past year, we support Staff's recommendation to renew this manager's contract for another year.

State Street Global Advisors

Although SSgA's performance lagged that of Pareto for the few years up to September 2005, the manager has added more value than its counterpart in the two years since. Since the last contract renewal last year, SSgA added 2.33% of value over the fully hedged benchmark, and has now added 32 basis points of cumulative value since inception (we noted last year that the manager had underperformed since inception). The manager has underperformed the unhedged benchmark since inception by 3.29% and has also failed to meet its self-imposed goal of capturing 60% of all upside returns over the last year.

However, given the success over the past year and the progress made in the firm's long-term track record, we believe that it is appropriate to renew this manager's contract for another year.

Conclusion

Through the on-going activities of both CalPERS' consulting team and Wilshire's Manager Research Group, we closely monitor the performance and investment processes of all of CalPERS' managers. At this time, Wilshire concurs with Staff's recommendation to renew the contracts for both of the currency overlay managers, as CalPERS retains the right to terminate either with 30 days notice.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Schlachter", with a stylized flourish at the end.

Michael C. Schlachter, CFA